



Advanced Investing

March 10, 2005

Agenda

- Asset Allocation : Factors to Consider
- Personal Investment Strategy
- Investment Options Overview
- Estate Planning Terminology
- Where are your Retirement Dollars Coming From?

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Asset Allocation... Factors To Consider

- Time Horizon
- Life Events
- Sensitivity To Risk
- Personal Financial Situation

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Time Horizon

■ How much time do you have until:

- Retirement
- When you need to use the money?



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Life Events . . . What will happen to you?

- College for your children
- Buying a new home
- Medical Care Expenses
- Starting a Family



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Sensitivity To Risk

- Investment Risk
- Inflation Risk
- Interest Rate Risk
- Retirement Shortfall
- Credit Risk



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Personal Financial Situation

- Marital Status
- Income Level
- Other Investments

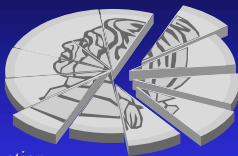


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How Often Should You Change Your Allocation?

■ Review your...

- Time Horizon
- Life Changing Events
- Sensitivity To Risk
- Personal Financial Situation

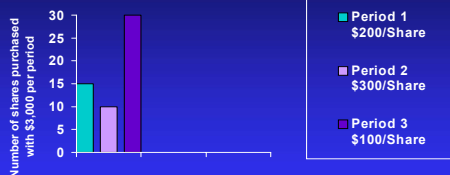


on a regular basis!

If they change your allocation may need to change.

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Dollar Cost Averaging



This graph is for illustrative purposes only.
Past performance is no guarantee of future results.
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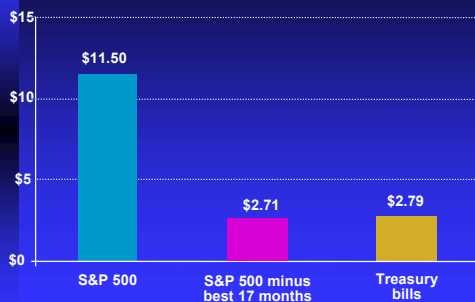
The Dangers of Market Timing

- It is often difficult to predict short-term swings in the market.
- Market timing exposes the portfolio to more risk.
- Returns are often concentrated in short term periods.
- What has worked in the past often does not carry into the future.

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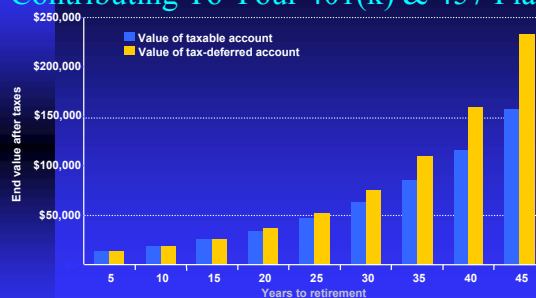
Dangers of Market Timing

Hypothetical value of \$1 invested from year-end 1983–2003



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Benefits of Deferring Taxes By Contributing To Your 401(k) & 457 Plans



Hypothetical value of \$10,000 invested in large company stocks. This hypothetical example is for an investor in the 25% bracket using the 2003 tax code. Assumes an 8% annual total return. Estimates are not guaranteed. The above illustration does not reflect mortality and expense risk charges, sales charges, management fees, contract administrative charges, and distribution charges that are typically associated with investing in a variable annuity. If these charges were taken into account, they would reduce the level of performance.

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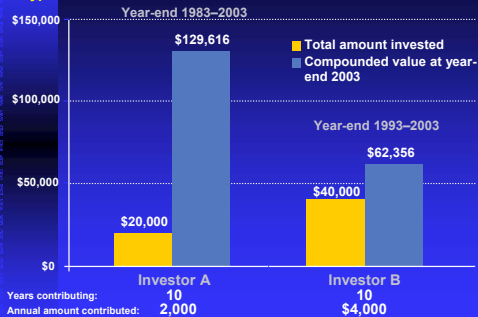
Tax Implications At Withdrawal

- Deferred Compensation (457, 401k & IRA)
 - ◆ A. Taxed as ordinary income
 - ◆ B. No capital gains taxes owed
- Outside investments (brokerage, personal bond & stock holdings)
 - ◆ A. Capital gains tax due - difference between sale price and cost basis (purchase price)

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Power of Compounding

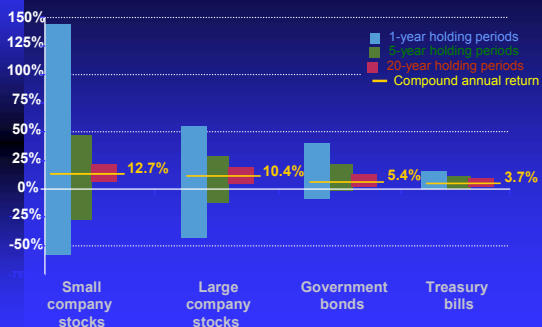
Hypothetical investment in stocks



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Reduction of Risk Over Time

1926–2003

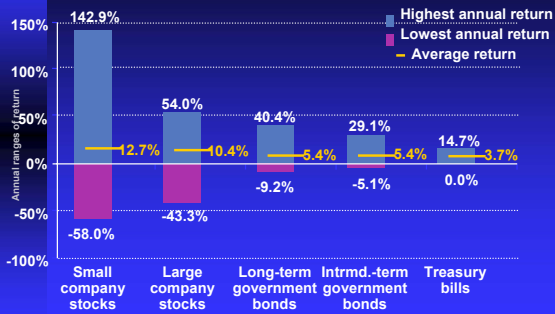


Each bar shows the range of compound annual returns for each asset class over the period 1926–2003.

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Asset Class Returns

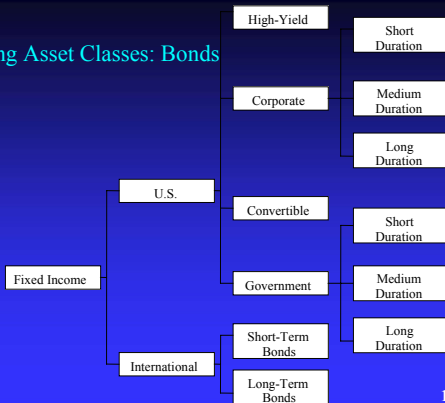
Highs and lows: 1926–2003



Each bar shows the range of annual total returns for each asset class over the period 1926–2003.

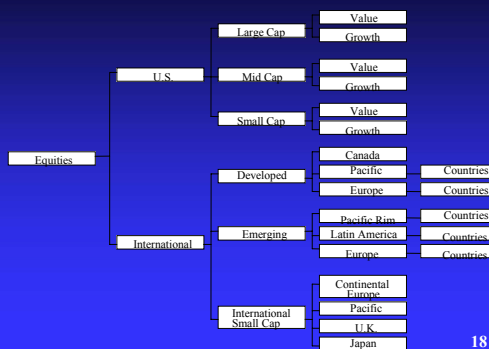
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Selecting Asset Classes: Bonds



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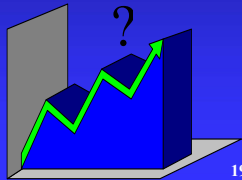
Selecting Asset Classes: Stocks



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Bull Market - Upward Cycle

- Strong Economy
- Low Inflation/Low Interest Rates
- Positive Corporate Earnings
- Strong Cash Flows
- Low Unemployment



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Bear Market - Downward Cycle

- Slowing rate of earnings growth
- High Inflation/High Interest rates
- Increased consumer debt
- Climbing unemployment



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Know Your Investment Options

- Tier 1 Index Funds
- Tier 2 Mutual Funds
- Tier 3 Self Managed Account



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Tier I Index Funds, Stable Value and Asset Allocations Funds

- Stable Value Funds
 - ◆ SSgA Stable Value Fund
 - ◆ SSgA Yield Enhanced Short-Term Investment Fund (STIF)
- Index Funds
 - ◆ SSgA Bond Market Index Fund
 - ◆ SSgA S&P 500 Index Fund
 - ◆ SSgA S&P MidCap Index Fund
 - ◆ SSgA Russell 2000 Index Fund

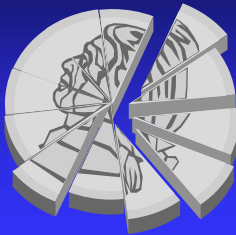
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Tier I Asset Allocation Funds

Conservative

Moderate

Aggressive



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Tier II Actively Managed Mutual Funds

- Fixed Income
 - ◆ Western Asset Core Bond Fund
- Balanced Fund
 - ◆ MFS Total Return Fund (Class A)
- Large Company Stock Funds
 - ◆ Dodge & Cox Stock Fund
 - ◆ Fidelity Magellan Fund
 - ◆ AXP New Dimensions Fund (Class Y)
 - ◆ Smith Barney Large Cap Growth Fund (Class Y)

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Tier II Continued

- Mid-sized Company Stock Funds
 - ◆ Lord Abbett Mid Cap Value Fund (Class A)
 - ◆ Artisan Mid Cap Fund
- Small Company Stock Funds
 - ◆ Columbia Acorn Fund (Class Z)
 - ◆ Dreyfus Emerging Leaders Fund
- International Stock Funds
 - ◆ Templeton Foreign Fund (Class A)
 - ◆ American Funds EuroPacific Growth Fund
 - ◆ SSgA Emerging Markets Fund

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Tier III Self Managed Account

- Window to thousands of additional Mutual Funds
- Individual Stocks and Bonds
- Added Investment Flexibility
- Socially Conscious Investing (Tobacco Free)
- Additional Fee \$50 per year

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Tier III Fee Structure

- Funds with Transaction Fee, & a Load
- Funds with Transaction Fee, but No Load
- Funds with No Transactions Fee and No Load. Over 300 available

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When to Revisit the Asset Allocation Policy

- Changes in lifestyle
 - ◆ Children
 - ◆ Marriage/Divorce
 - ◆ Death
- Changes in income
 - ◆ Promotion/career change/unemployment
 - ◆ Inheritance
- Changes in investment objectives
 - ◆ Time to retirement
 - ◆ Real Estate purchases
 - ◆ Education expenses

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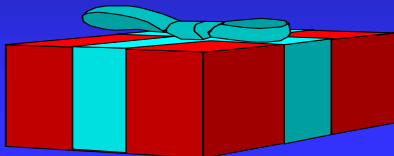
Your Estate - It May Be Worth More Than You Think!

- What's in it?
 - ◆ All assets owned in your name
 - ◆ Life insurance
 - ◆ Money you are owed
 - ◆ All jointly held property
 - ◆ A business
 - ◆ Anything not in your name but which you have control over
- What's not part of your estate?
 - ◆ Any asset you have given away over which you have no control and receive no benefit

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How Much Can I Give Away Tax Free Every Year?

- Annual Gift Exclusion
 - ◆ \$11,000 per year per recipient
 - ◆ Recipient must have immediate use and enjoyment



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Unified Credit - What Is It?

Each person can pass \$1,500,000 worth of assets onto their heirs estate TAX FREE. Assets must be in your name only, not jointly held.

2004 - 2005: \$1,500,000
2006 - 2008: \$2,000,000
2009: \$3,500,000



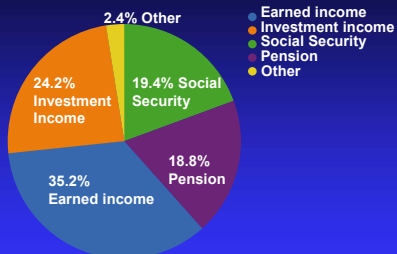
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Estate Tax Brackets

| <u>Year</u> | <u>Unified Credit</u> | <u>Tax Rate</u> |
|-------------|-----------------------|-----------------|
| 2004 | 1.5 Million | 48% |
| 2005 | 1.5 Million | 47% |
| 2006 | 2 Million | 46% |
| 2007 | 2 Million | 45% |
| 2008 | 2 Million | 45% |
| 2009 | 3.5 Million | 45% |

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Where Will Your Retirement Dollars Come From?



Pension includes all defined benefit and defined contribution plans. Estimates are not guaranteed.

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What Does the CitiStreet Advisor Service Provide Me With?

- Objective Investment Advice
- Current assessment of risks, goals and objectives
- Counseling on savings in additional retirement accounts
- Preparation of a personalized investment strategy
- Personalized reports
- Ongoing support
- Unlimited access to Advice



Through its partnership with CitiStreet, the State of Michigan has agreed to provide access to the CitiStreet Advisor Service, powered by Financial Engines. The State reserves the right to modify or discontinue this arrangement at any time.

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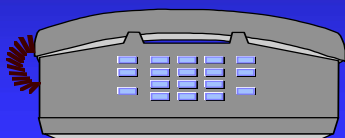
How Do I Access the Advisor Service Online?

1. Log on @ <http://stateofmi.csplans.com> using your Social Security# and PIN
2. Click on **Investment Advice** link
3. If you are a return user, enter your User ID and password, otherwise click on **Start Here**
4. On the employer information page, type **michigan** in the sponsor field and your SS# in the temporary ID field
5. Create a User ID and password of your choosing. Retain this for future use.
6. Review the Investment Services Agreement, then click **I Accept**

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How Do I Access the Advisor Service On the Phone?

- Call 1-800-748-6128
- Advisors available Monday – Friday 9:00 a.m. – 5:00 p.m.



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How Much Does It Cost?



■ Advice Delivered Online:

- ◆ Active State of Michigan Employee: Free
- ◆ Former State of Michigan Employee: 1.67 bps*

■ Advice Delivered Over the Phone:

- ◆ Active State of Michigan Employee: 2.5* bps
- ◆ Former State of Michigan Employee: additional 2.5* bps above online charge

- When active state employees terminate their employment, they will continue to receive their online advisor service for 90 days at no cost. After 90 days the former employee fees apply.

* Example of Basis Points, 1.67 bps charge on an account balance of \$10,000 would be \$1.67 per month, which is 0.000167 multiplied by \$10,000

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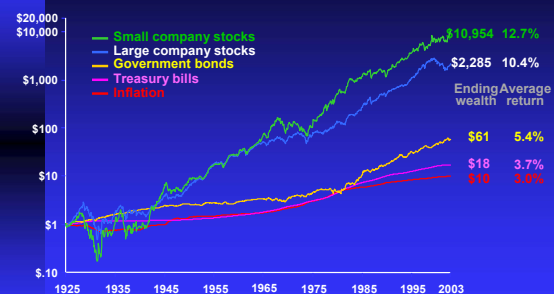
Who To Call With Questions About Your Retirement Dollars

- Social Security 1-800-772-1213 ask for the SSA-7004 form
- 401k and 457 Call CitiStreet Distribution Specialists 1-877-624-7602 or
- CitiStreet Customer Service Representatives 1-800-748-6128
- Pension Information -- Office of Retirement Services 1-517-322-5103 or 1-800-381-5111 www.michigan.gov/ors
- Web site for Deferred Compensation: <http://stateofmi.csplans.com>

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Stocks, Bonds, Bills & Inflation

Year-end 1925-2003



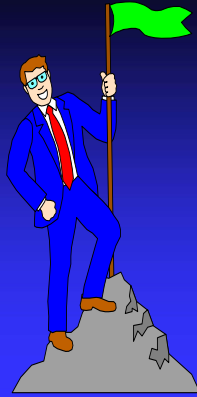
Hypothetical value of \$1 invested at year-end 1925. Assumes reinvestment of income and no transaction costs or taxes.

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Take Action

■ Invest

- ❖ As Much as You Can
- ❖ As Soon as You Can
- ❖ As Long as You Can



Important Notes

- Today's workshop was designed to:
 - ◆ Provide you with fundamental information on investment opportunities
 - ◆ Objectively highlight your fund options
 - ◆ Outline other sources of information for your decisions
- This presentation does not constitute legal, investment or financial advice of any kind
 - ◆ Please consult your own advisors for such advice
- Any investment performance illustrated in this presentation details historical returns and does not guarantee future investment returns of the investments reviewed

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